An Internal Service Provider (ISP) is an organizational unit established to offer goods and services to University of Texas at Dallas (University) customers. ISP's are expected to offer goods or services that are unique, convenient, or not readily available from external sources. This policy provides operational guidelines for ISP's to ensure compliance with state and federal laws, as well as accounting and reporting principles.

Policy Overview

Any University group intending to establish an ISP must submit a written request, approved by the division or school executive officer, to the Vice President for Budget and Finance/Chief Financial Officer or his/her designee. ISP's may not be subject to external market forces, therefore, initial approval and ongoing review is required.

Costs necessary to operate approved ISP's may be identified and charged to customers based on approved rates. The rates charged for goods and services are computed by the ISP and reviewed by Accounting and Financial Reporting (AFR). Rates must be set to break even over a period of one year. Prior year's surpluses or deficits should be included in the next rate computation. Recurring surplus or deficit variances greater than 10% of annual cost must be resolved with the AFR department.

Auxiliary enterprise units are not subject to this policy.

Types of Internal Service Providers

Goods and services provided by ISP's must be consistent with the University's mission and exceed $10k in annual cost. ISP activities must also be within the normal course of business for the school or division. ISP's can be either service centers or recharge centers depending on the cost recovery structure. Types of ISP's are further defined below.

Service Center - A University unit or activity whose primary customers are University departments. Interdepartmental invoicing is the predominant revenue source for a service center. Although service center goods and services may be provided to non-University customers, no external revenue can be recorded to internal cost centers. Although rare, if departments engaged in service center activity also intend to invoice customers outside the University, the department must first obtain approval to establish an external sales unit. For more information on external sales, see related policy External Sales – UTDBP3114. Billing rates for service centers are designed to fully recover current operating costs. The following guidelines apply:

- The service center billing rates may include direct and indirect cost
- An annual rate study is required
- A capital reserve for the future replacement of capital assets may be considered
- A subsidy cost center must be identified and reported on the annual rate study

Recharge Center - A center whose activities are generally incidental to total departmental activity and no formal cost studies are performed (e.g., photocopying done on a department copier and recharged to the user). The following guidelines apply:

- Recharge centers may only re-distribute the original cost of goods and services
  - No mark-ups, overhead cost, indirect cost or fees of any kind may be included in the recharge rate
• Recharge centers may only provide goods and services to internal customers
• All cost and recharge transactions must net to zero on a monthly basis
  ◦ Cost information must be included in journal documentation

Use and Management - Internal Service Providers

A written request to establish an ISP must be submitted to the Vice President for Budget and Finance/Chief Financial Officer or his/her designee. The request must be approved by a school’s dean or the appropriate vice president and include the following information:

• Description of the goods or services to be provided
• Description of all other providers of the goods and services within 10 miles of the University
• Listing of the potential customers (such as University departments, federal grants and contracts, and external users)
• Copy of the completed rate study worksheet
• Anticipated start date

Requests to establish ISP’s will be reviewed by the AFR department utilizing the following criteria:

• The request is complete and has appropriate approvals
• The request includes a statement of purpose which is consistent with the University's mission and complies with University policies and procedures
• The rate calculations are accurate and adhere to state and federal policies including general accounting standards

AFR will communicate the results of the review to the requesting school or division upon completion. The communication will include financial information assigned to the ISP if applicable.

Please see the ISP procedure for more information and details related to the rate study worksheet.

For existing ISP’s, an annual review is required in order to receive an operating budget for the following year. A key aspect of the review will be to ensure that all costs are justifiably associated with the operation of providing each good and service. General costs that can serve school or division leadership, the operating unit as a whole, or other individuals not necessary to operate the ISP should be charged to operating cost centers. Approved allocations may be obtained during the annual rate study review. Unallowable cost may not be charged to ISP’s. Information regarding allowable cost is detailed in the rate study worksheet and within the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards starting with §200.420.

Additional reviews consist of:

• Review of the needs of the University and the services provided to determine if internal services continue to be appropriate
• Review of the prior year's forecast as noted in the rate study compared to actuals for the same period
• Ensuring that rates continue to reflect the cost reimbursement basis
• Review of total charges to federal funds
• Review the total volume of activity for the fiscal year to ensure that the ISP continues to meet the threshold of $10k in operating cost
• Review the rate calculation proposed for the following year

On an ongoing basis, AFR will review entries submitted by the ISP’s to ensure the appropriate rate is being applied to internal charges.

In some cases, if a satisfactory rate study cannot be obtained from the responsible school or division, AFR will recalculate the rate for use during the following year.
If at any time, it is determined by the Vice President for Budget and Finance/Chief Financial Officer or his/her designee that an ISP no longer meets the established ISP criteria, the necessary steps will be taken to notify the responsible parties and close the ISP cost centers.

**Responsibilities**

**Internal Service Provider Responsible Person:** Submit a request to establish a new ISP. Manage the daily operations of the ISP. Provide competitive rates and services while maintaining a break-even financial position on an annual basis. Collaborate with AFR to complete an annual review and rate analysis in time for customers to include any rate adjustments in the following year's budget. Maintain detailed records supporting charges to internal customers. Originate journal entries for goods and services provided to University customers.

**Vice Presidents / Provost / Deans:** Review new ISP requests. Review any analysis and recommendations to discontinue ISP's. Fund any deficits or disallowed costs created by ISP's within their school or division.

**Accounting and Financial Reporting:** Collaborate with the ISP responsible person to complete and review rate calculations to ensure compliance with applicable policies and procedures. Monitor the rates charged to ensure consistency with current rate calculations. Review recorded costs periodically to determine if all unallowable costs are being excluded. Notify the ISP responsible person if reviews identify practices inconsistent with applicable policies and procedures. Recalculate rates in the event that a compliant rate study worksheet cannot be obtained from the ISP.

**Budget and Resource Planning:** Ensure the approved operating budgets developed in the rate study worksheets are accurately entered into the University's accounting system. Include the operating budget for ISP's in the review of overall departmental resources allocated to each budgeted unit. Ensure the salary allocation used for each rate study is accurately entered into the budget planning system.

**Who Should Know This Policy**

- Provost and Vice Presidents
- Deans
- Directors and Fiscal Officers
- Department Heads and Administrators
- Principal Investigators
- Office of Research
- Office of Budget and Finance

**Record Keeping**

The ISP will maintain detailed records supporting charges to University customers as well as information required for computing billing rates. These records will include the following:

- Name of the person and department requesting goods or services
- Cost centers for internal customers being charged
- Description and cost of the goods or services being performed
- Total volume of activity for University customers, including federal grants and contracts
- Financial information necessary for computing billing rates

**Related Websites**

Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards